

APR 18 1996

MEMORANDUM FOR DISTRIBUTION

FROM: RICHARD H. NIEMAN, ACTING DIRECTOR
OFFICE OF DEPARTMENTAL ACCOUNTING
AND FINANCIAL SYSTEMS DEVELOPMENT

Original signed by

Richard H. Nieman

SUBJECT: Procedures for Recording Write-Downs of Environmental Processing Facilities

The requirement to prepare audited financial statements has necessitated the revision of accounting procedures for environmental legacy costs. During FY 1995, the Department accrued a \$198.5 billion environmental liability to recognize the cost of environmental problems resulting from the Department's past operations. The accrued liability was based primarily on the mid-range estimate identified in the 1995 Baseline Environmental Management Report. This accrual is one of the largest single unfunded liability amounts affecting the Government-wide financial statements being prepared by the Department of the Treasury.

Accounting for environmental legacy costs requires significant changes to our current accounting procedures. The most significant effect of these changes is that expenditures incurred to address legacy wastes are now reported as a reduction of the Department's accrued environmental liability rather than as an expense on the Department's operating statement. The procedures issued by my memorandum dated August 28, 1995, for recording environmental liabilities remain in effect. In accordance with these procedures, environmental liabilities related to the Baseline Environmental Management Report will continue to be recorded at the Headquarters level by the Departmental Accounting and Analysis Division.

New standard entries have been developed to enable field office to write down capital assets for costs associated with the treatment, storage, and disposal of the Department's legacy wastes. Statement-level adjustments to write down these capital assets were made at the Headquarters level for the FY 1995 financial statements. The adjustments were based on the result of the field offices' analyses of environmental management processing facilities requested by the Deputy Controller's October 25, 1995, memorandum. Attachment 1 includes (1) standard entries to record these prior period - as well as future - write downs, (2) definition for a new contra account for construction work in progress, and (3) new budget and reporting codes that will be used for recording these entries. Post closing (summary class "CP") entries that must be made by field offices to record